



PROGRAM : NATIONAL DIPLOMA
BUILDING

SUBJECT : CONSTRUCTION ACCOUNTING 3

CODE : CONA331

DATE : SUMMER EXAMINATION 2015
13 NOVEMBER 2015

DURATION : (SESSION 1) 08:30 - 11:30

WEIGHT : 40 : 60

TOTAL MARKS : 100

EXAMINER : MR J. DE BEER

MODERATOR : MR K. DALY

NUMBER OF PAGES : 8 PAGES INCLUDING THE COVER PAGE

INSTRUCTIONS : STUDENTS MAY RETAIN THE QUESTION PAPER.
ANY SILENT CALCULATOR MAY BE USED.
ANSWER ALL THE QUESTIONS.

REQUIREMENTS : 2 EXAMINATION SCRIPS PER STUDENT.

QUESTION 1**PART A**

The following accounts appeared in the general ledger of **Beta Construction Consultants** for the reporting period ended 31 December 2014.

1.1	Capital
1.2	Accounting fees
1.3	Motor vehicles
1.4	Bank charges
1.5	Long-term loan
1.6	Computer expenses
1.7	Office equipment
1.8	Insurance
1.9	Revenue
1.10	Motor vehicle expenses
1.11	Office furniture
1.12	Office rental paid
1.13	Interest received
1.14	Printing and stationery consumables
1.15	Trade and other receivables
1.16	Repairs and maintenance
1.17	Trade and other payables
1.18	Salaries and wages
1.19	Cash at bank
1.20	Telephone and postages

REQUIRED

For each of the above accounts indicate whether it should be shown as a **debit** or a **credit** when the final trial balance is drawn up.

(10)

QUESTION 1 (continued)**PART B**

Construct Ltd commenced with contract B29 on 15/01/2014.

The total contract price is R11 664 000, and total cost is estimated at R8 100 000.

On 31/12/2014 it was determined that contract B29 was 75% completed.

The company uses the percentage of completion method, based on cost to date compared with total estimated cost, to recognise construction income - this calculation resulted in a profit of R2 673 000 for 2014.

On 31/12/2014 work certified on the contract amounted to R6 998 400, of which 10% should be regarded as retentions. At this date, a total of R5 832 000 had been received from the contract debtors (receivables).

The value of machinery and building materials on site at 31/12/2014 amounted to R2 041 200 and R113 400 respectively.

The following are the expenses incurred for the reporting period ended 31/12/2014.

	<u>R</u>
Machinery	2 862 000
Accounting fees	18 000
Building materials	4 141 800
Rent paid for administrative offices	75 600
Subcontractors	523 800
Telephone and postage	16 200
Quantity surveying fees	86 400
Salaries for administrative staff	718 200
Hiring of equipment	32 400
Bank charges	7 200
Wages for site workers	583 200
Interest on bank overdraft	<u>14 400</u>

REQUIRED

Show construction account B29 in the general ledger of Construct Ltd for the reporting period ended 31/12/2014.

(10)
[20]

QUESTION 2**PART A**

The following relate to Varsity Trading Ltd for the reporting period ended 31/12/2014.

- 2.1 On 30 April 2014 a delivery vehicle with an expected useful life of 4 years and an estimated residual value of R351 000 was acquired for R945 000 (net of VAT). No depreciation has been provided yet.
- 2.2 Office premise rental for January 2015 amounting to R149 400 was paid in December 2014.
- 2.3 Stationery consumables to the value of R84 600 acquired and received in December 2014 were recorded in the books in January 2015 and paid in February 2015.
- 2.4 A cash sale of R239 400 was recorded in December 2014. The goods were only delivered in January 2015.
- 2.5 In January 2015 it was discovered that a credit sales invoice of R581 400 relating to December 2014 was not recorded in December 2014.
- 2.6 Opening inventory (trading stock) on 01/01/2014 amounted to R1 917 000.
- 2.7 Closing inventory (trading stock) on 31/12/2014 amounted to R2 269 800.
- 2.8 Total revenue (sales inclusive of 14% VAT) for December 2014 taking all the above into account amounted to R6 463 800.
- 2.9 Total disbursements (inclusive of 14% VAT) for December 2014 taking all the above into account amounted to R5 027 400.

REQUIRED

The adjustment journal entries in the books of Varsity Trading Ltd relating to (2.1, 2.2, 2.3, 2.4, 2.5, 2.6 and 2.7 - ignoring VAT) as well as the VAT journals relating to 2.8 & 2.9 for the reporting period ended 31/12/2014.

(18)

PART B

The following relate to Panda Ltd for the reporting period ended 31/12/2014.

31/12/2013	Gross carrying amount (cost price) : old machine	R1 420 800
31/12/2013	Accumulated depreciation : old machine	R994 560
01/08/2014	Proceeds on disposal : old machine	<u>R283 500</u>
	Depreciation rate : 20% p.a. straight line ignoring any future residual value.	

REQUIRED

Determine the profit / (loss) on disposal of the old machine sold by Panda Ltd for the reporting period ended 31/12/2014.

(6)

QUESTION 2 (continued)**PART C**

The following relate to Aggri Ltd a farming company, for its VAT-cycle ended 30/09/2015.

	<u>R</u>
Taxable supplies made - subject to output VAT :	
Revenue / sales (inclusive of VAT)	11 250 000
Zero-rated supplies included in revenue / sales	<u>5 274 000</u>
Taxable supplies received - subject to input VAT :	
Purchases (inclusive of VAT)	7 884 000
Zero-rated supplies included in purchases	3 168 000
Overhead expenses (inclusive of VAT)	2 484 000
Exempt supplies included in overhead expenses	198 000
Delivery vehicle acquired (inclusive of VAT)	<u>936 000</u>

REQUIRED

Determine the VAT (@14%) payable by / (refundable to) Aggri Ltd on 25/10/2015 relating to the VAT-cycle ended 30/09/2015.

(6)
[30]

QUESTION 3**PART A**

The following information relates to QS (Pty) Ltd :

		April 2015 Actual <u>R</u>	May 2015 Actual <u>R</u>	June 2015 Estimated <u>R</u>
Trade receivables / debtors for sales	(1)	-	3 378 240	-
Cash at bank	-	-	97 200	-
Trade payables / creditors for purchases	(2)	-	1 105 920	-
VAT owing	(3)	-	140 400	-
Overhead expenses owing	(4)	-	388 800	-
Sales (15% for cash ; 85% on credit)	(1)	2 592 000	2 808 000	3 348 000
Purchases (20% for cash ; 80% on credit)	(2)	-	1 382 400	1 512 000
Salaries	(5)	-	-	<u>1 101 600</u>

QUESTION 3 (continued)**PART A (continued)****Additional information / notes :**

- (1) Credit sales are collected as follows : 55% in the month following the month of sale ; 42% in the 2nd month following the month of sale and 3% is estimated to be written off as irrecoverable.
- (2) Credit purchases are paid in the month following the month in which the purchases were made subject to a 2.5% settlement discount.
- (3) VAT owing is payable on the 25th of the month following the month in which the liability was incurred.
- (4) Overhead expenses are paid in the month following the month in which they are incurred.
- (5) Salaries are paid on the last day of each month.

REQUIRED

Prepare a cash budget for **June 2015**.

(13)

PART B

The following appeared in the Statement of financial position of Gold Ltd as at 31/12/2014.

12 000 7% Cumulative redeemable Debentures of R100 each : R1 200 000

The current interest rate for similar debentures is **9%** per annum.

REQUIRED

Determine the **total value** of the debentures at **31/12/2014** under the following assumptions :

- 3.1 The debentures are **not** redeemable - thus valuation must be done **in perpetuity**.
- 3.2 The debentures are redeemable in 2 instalments, the first R400 000 on **31/12/2016** and the balance of R800 000 on **31/12/2018**.

(12)

[25]

QUESTION 4**PART A**

Nixon Manufacturing Ltd has decided to replace an outdated production machine at its manufacturing plant. Two replacement options are immediately available for delivery from Swedish Machine Importers Ltd.

The trade-in value of the old machine will be offset against the initial cost of the new machine thereby reducing the amount payable on delivery.

<u>Replacement option</u>	<u>Machine X</u>	<u>Machine Y</u>
Estimated life	5 years	5 years
Initial cost	R972 000	R1 350 000
Trade-in (negotiated)	R119 000	R162 000
Guaranteed residual / buy back value after 5 years	R194 000	R270 000
Projected net cash inflows		
Year 1	R388 000	R140 000
Year 2	R292 000	R173 000
Year 3	R207 000	R297 000
Year 4	R248 000	R464 000
Year 5	R151 000	R724 000

The company's cost of capital is **12%**.

<u>Year</u>	<u>Discount factor</u>
1	0.89
2	0.80
3	0.71
4	0.64
5	0.57

REQUIRED

- 4.1 For each option calculate the payback period.
- 4.2 For each option calculate the net present value.
- 4.3 Motivate which machine should be acquired / purchased.

(20)

QUESTION 4 (continued)**PART B**

Market value ratios reflect a firm's share price in relation to dividends and earnings, which are indicative of investors' opinions regarding past performance and future prospects. If a firm's liquidity, asset and debt management, as well as profitability ratios are all considered to be good, investors will value the shares of a firm highly and the market value ratios will correspondingly be high.

REQUIRED

For each of the following market value ratios, indicate how it would be calculated and the result thereof be expressed as :

- 4.4 Dividend yield ;
- 4.5 Earnings yield ;
- 4.6 Price-earnings (P/E) ;
- 4.7 Dividend cover.

(5)

[25]

TOTAL MARKS : 100